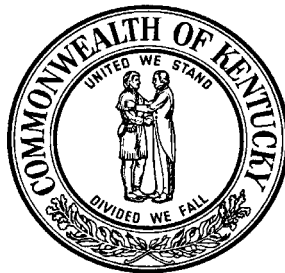


**REPORT OF THE AUDIT OF THE
BOYD COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES**

April 30, 2004



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
BOYD COUNTY
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2003 Taxes for Boyd County Sheriff as of April 30, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$14,780,231 for the districts for 2003 taxes, retaining commissions of \$574,384 to operate the Sheriff's office. The Sheriff distributed taxes of \$14,158,720 to the districts for 2003 Taxes. Taxes of \$167 are due to the districts from the Sheriff and refunds of \$294 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040
- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should File Tax Reports Monthly
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- The County Revenue Bond Should Adequately Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary,
Finance and Administration Cabinet
Honorable Bill Scott, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Independent Auditor's Report

We have audited the Boyd County Sheriff's Settlement - 2003 Taxes as of April 30, 2004. This tax settlement is the responsibility of the Boyd County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Boyd County Sheriff's taxes charged, credited, and paid as of April 30, 2004, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bill Scott, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040
- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should File Tax Reports Monthly
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- The County Revenue Bond Should Adequately Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 15, 2004

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2003 TAXES

April 30, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,889,056	\$ 3,650,838	\$ 3,220,260	\$ 1,802,860
Tangible Personal Property	364,921	600,705	614,419	1,271,957
Intangible Personal Property				445,244
Fire Protection	379			
Increases Through Exonerations	52	115	145	49
Franchise Corporation	392,166	737,931	604,801	
Additional Billings	111	177	50	743
Unmined Coal - 2003 Taxes	421	933	1,183	400
Oil and Gas Property Taxes	2,637	5,840	7,403	2,505
Limestone, Sand, and Mineral Reserves	25	54	69	24
Bank Franchises	174,839			
Penalties	18,250	33,652	30,203	16,724
Adjusted to Sheriff's Receipt		55	10	23
Gross Chargeable to Sheriff	<u>\$ 2,842,857</u>	<u>\$ 5,030,300</u>	<u>\$ 4,478,543</u>	<u>\$ 3,540,529</u>
<u>Credits</u>				
Exonerations	\$ 32,737	\$ 68,661	\$ 88,185	\$ 78,372
Discounts	33,743	56,851	50,093	49,562
Delinquents:				
Real Estate	71,096	149,755	132,035	67,534
Tangible Personal Property	28,957	45,346	68,915	59,733
Intangible Personal Property				6,558
Gas Property 2003 Taxes	8	18	22	7
Uncollected Franchise	4,829	9,308	9,673	
Total Credits	<u>\$ 171,370</u>	<u>\$ 329,939</u>	<u>\$ 348,923</u>	<u>\$ 261,766</u>

The accompanying notes are an integral part of this financial statement.

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT – 2003 TAXES
April 30, 2004
(Continued)

Taxes Collected	\$ 2,671,487	\$ 4,700,361	\$ 4,129,620	\$ 3,278,763
Less: Commissions *	<u>113,826</u>	<u>197,034</u>	<u>123,889</u>	<u>139,635</u>
Taxes Due	\$ 2,557,661	\$ 4,503,327	\$ 4,005,731	\$ 3,139,128
Taxes Paid	2,552,412	4,491,455	3,990,409	3,124,444
Refunds (Current and Prior Year)	<u>5,539</u>	<u>11,843</u>	<u>15,184</u>	<u>14,688</u>
Due Districts or (Refunds Due Sheriff)		**	***	
as of Completion of Fieldwork	<u>\$ (290)</u>	<u>\$ 29</u>	<u>\$ 138</u>	<u>\$ (4)</u>

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 9,547,961
4% on	\$ 1,092,650
3% on	\$ 4,129,620

** Special Taxing Districts:

Library District	\$ 117
Health District	(115)
Extension District	(79)
Ambulance District	64
Cannonsburg Fire	36
Summitt-Ironville Fire	(1)
England Hill Fire	(21)
Westwood Fire	(19)
East Fork Fire	33
Big Sandy Fire	<u>14</u>
Due Districts or (Refund Due Sheriff)	<u>\$ 29</u>

*** School Taxing Districts:

Boyd County	282
Fairview	(116)
Russell	<u>(28)</u>
Due Districts or (Refund Due Sheriff)	<u>\$ 138</u>

The accompanying notes are an integral part of this financial statement.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 30, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

BOYD COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2004
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2003 through April 30, 2004.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2003. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 25, 2004 through April 30, 2004.

Note 4. Sheriff's 10% Add-On Fee

The Boyd County Sheriff collected \$71,294 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 5. Advertising Costs And Fees

The Boyd County Sheriff collected \$7,445 of advertising costs and \$5,470 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of September 15, 2004, the Sheriff owes \$5,470 in advertising fees to his fee account.

COMMENTS AND RECOMMENDATIONS

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 30, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040

The Sheriff charged the Fire Districts 4.25% commission instead of the 1% commission allowed by KRS 75.040. KRS 75.040 sets a commission rate of 1% for fire district taxes and Attorney General Opinion 72-655 also states the 1% commission rate should be used. By charging a commission rate of 4.25%, the Sheriff overcharged \$28,359 in commissions for collecting fire district taxes. Furthermore, the Sheriff underpaid taxes to the fire districts in the same amount. A breakdown of the overcharges by district is listed below:

Cannonsburg Fire	\$ 10,381
Summitt - Ironville Fire	6,579
England Hill Fire	3,228
Westwood Fire	3,003
East Fork Fire	2,815
Big Sandy Fire	<u>2,353</u>
	<u>\$ 28,359</u>

We recommend the overcharged commissions be refunded to the fire districts.

Sheriff's Response:

None.

The Sheriff's Tax Settlement Should Be Published

The Sheriff's 2003 tax settlement was not published. KRS 134.310(2) requires the settlement to be published pursuant to KRS Chapter 424. We recommend the Sheriff begin publishing his tax settlement annually.

Sheriff's Response:

None.

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 30, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should File Tax Reports Monthly

KRS 134.300 requires the Sheriff, by the tenth day of each month, to report under oath to the county, the amount of state and county taxes he has collected during the preceding month. KRS 134.300 also requires the Sheriff to pay all funds belonging to the county at the time he files the monthly report and requires a penalty of 1% per month, plus interest, if the Sheriff does not file the report and pay taxes timely. KRS 160.510 requires the Sheriff, by the tenth day of each month, to report and pay to the board of education, the amount of taxes he has collected during the preceding month. The Sheriff did file monthly tax reports and make monthly tax payments during the regular property tax season. However, the Sheriff did not file monthly tax reports or make monthly tax payments during other months of the year. The Sheriff ended his regular 2002 property tax collections on April 30, 2003. The regular 2003 property tax collections began on October 1, 2003. From the period April 30, 2003 thru October 1, 2003, the Sheriff continued to collect franchise taxes, but failed to report or pay these taxes to taxing districts on a monthly basis. In doing so, the Sheriff has deprived the taxing districts of moneys due and owing to them and has failed to timely pay commissions due and owing to the Sheriff's operating account. We recommend the Sheriff comply with KRS 134.300 and KRS 160.510 by preparing tax reports and paying taxes to taxing districts by the tenth day of each month following any month during which taxes are collected.

Sheriff's Response:

None.

The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts

The Sheriff deposited funds into a non-interest bearing bank account. KRS 66.480 states that the Sheriff may, and at the direction of the fiscal court shall, invest and reinvest money subject to their control and jurisdiction. Prudent financial management dictates that the Sheriff take advantage of earnings potential by depositing funds into interest-bearing bank accounts. We recommend the Sheriff invest all funds into interest bearing bank accounts.

Sheriff's Response:

None.

The County Revenue Bond Should Adequately Protect The County From Potential Loss

As of the audit date, the Sheriff did not have a county revenue bond. KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all monies in the Sheriff's possession. We recommend the Fiscal Court review the situation and take appropriate action to ensure the county is adequately protected.

Sheriff's Response:

None.

BOYD COUNTY
TERRY KEELIN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
As of April 30, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements.

In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accept the risk for a lack of adequate segregation of duties.

Internal controls could be improved by implementing the following:

- A person who has no access to accounting records and does not make deposits should reconcile daily receipts to daily checkout sheets.
- Daily deposits should be made by a person who does not keep the records, receive the money, or reconcile the bank account.
- Recording of receipts and disbursements ledgers should be by an individual who does not make deposits or sign checks.
- The bank reconciliation should be prepared monthly and agreed to the receipts and disbursements ledgers by an individual who has no access to accounting records, makes no deposits, or does not sign checks.

Sheriff's Response:

None.

PRIOR YEAR:

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill Scott, Boyd County Judge/Executive
Honorable Terry Keelin, Boyd County Sheriff
Members of the Boyd County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Boyd County Sheriff's Settlement - 2003 Taxes as of April 30, 2004, and have issued our report thereon dated September 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Boyd County Sheriff's Settlement - 2003 Taxes as of April 30, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Charged The Fire Districts 4.25% Commission Instead Of The 1% Commission Allowed By KRS 75.040
- The Sheriff's Tax Settlement Should Be Published
- The Sheriff Should File Tax Reports Monthly
- The Sheriff Should Invest Moneys In Interest-Bearing Bank Accounts
- The County Revenue Bond Should Adequately Protect The County From Potential Loss



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boyd County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 15, 2004

